

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0550-01
Bill No.: HB 227
Subject: Tax Credits; Economic Development; Economic Development Department
Type: Original
Date: February 4, 2013

Bill Summary: This proposal allows entities that make a qualified equity investment to receive certain tax credits and establishes procedures for obtaining such credits.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
General Revenue	\$0	\$0	\$0 to (\$25,000,000)
Total Estimated Net Effect on General Revenue Fund	\$0	\$0	\$0 to (\$25,000,000)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
New Markets Performance Guarantee	\$0	\$0	\$0
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Note: The fiscal note does not reflect the possibility that some of the tax credits could be utilized by insurance companies against insurance premium taxes. If this occurs, the loss in tax revenue would be split between the General Revenue Fund and the County Foreign Insurance Fund, which ultimately goes to local school districts.

Numbers within parentheses: () indicate costs or losses. This fiscal note contains 6 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Total Estimated Net Effect on FTE	0	0	0

☐ Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

☒ Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Office of Administration - Budget and Planning (BAP)** assume the proposal limits the existing authority for the New Markets Tax Credit Program to FY08-FY10. Since FY11, the New Markets Tax Credit program has required annual legislative authorization (via concurrent resolution) in order to allocate benefits under the program. This proposal removes the provision calling for annual authorization and enacts a sunset date for a modified version of the program, which is August 28, 2019, unless reauthorized. The modified version of New Markets Tax Credit Program caps program utilization at \$25 million annually. This proposal could therefore lower General and Total State Revenues by that amount. This proposal may encourage other economic activity, but BAP does not have data to estimate induced revenues.

This proposal establishes the New Markets Performance Guarantee Fund to accept and hold refundable deposits paid by qualified community development entities (CDE). These deposits would be returned to the CDEs if program requirements are met; however, this would be an increase to Total State Revenue.

Officials at the **Department of Economic Development (DED)** assume this proposal reauthorizes the New Markets Tax Credit program, which maintains the \$25 million cap per fiscal year. New language provides for a small fee to be collected from the Community Development Entities to be used to cover the administration of the program. The fee is collected in the New Markets Performance Guarantee Fund. If the CDE meets the requirements of the investments then DED refunds the fee. The program has a 6-year sunset unless reauthorized by the General Assembly and if reauthorized then an automatic 12-year sunset.

DED assumes an unknown negative impact over \$100,000 offset by an unknown positive impact as a result of economic development generated by the program. DED is not requesting any new FTE at this time; however, if it is determined an additional FTE is needed the FTE will be requested in the normal budget process.

Officials from the **Department of Insurance, Financial Institutions and Professional Registration** state an unknown reduction of premium tax revenues as a result of the re-authorization of the Qualified Equity Investments tax credit is possible. Premium tax revenue is split 50/50 between General Revenue and County Foreign Insurance Fund except for domestic Stock Property and Casualty Companies who pay premium tax to the County Stock Fund. The County Foreign Insurance Fund is later distributed to school districts throughout the state. County Stock Funds are later distributed to the school district and county treasurer of the county in which the principal office of the insurer is located. It is unknown how each of these funds may be impacted by tax credits each year.

ASSUMPTION (continued)

Officials at the **Joint Committee on Administrative Rules** assume there is no fiscal impact from this proposal.

Officials from the **Office of the Secretary of State (SOS)** state many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the SOS for Administrative Rules is less than \$2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, the SOS also recognizes that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what the office can sustain with the core budget. Therefore, the SOS reserves the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process.

Officials at the **Department of Revenue** and the **Office of State Treasurer** each assume there is no fiscal impact to their department from this proposal.

If adopted, this proposal would go into effect on August 28, 2013, and therefore the earliest issuance of the credits could occur as follows:

Fiscal Year	Credit Allowance Date	Applicable Percentage Rate
2014	Contribution Made - 1 st credit year	0%
2015	2 nd credit year	0%
2016	3 rd credit year	11%

Oversight assumes the New Markets Tax Credit is to sunset on September 4, 2013. This proposal creates a new tax credit, similar to the previous credit, that will have a utilization cap of \$25 million. Since this proposal begins in August 2013, the first credits could possibly be redeemed beginning in FY 2016, and therefore Oversight will reflect a loss to state revenue for the credits that could be redeemed in FY 2016. Oversight will reflect the loss of revenue to the State as \$0 to the \$25 million cap.

ASSUMPTION (continued)

This proposal creates the New Markets Performance Guarantee Fund. **Oversight** is unsure how many qualified community development entities will apply of this tax credit in the future and have to pay the fee. Oversight will range the impact of this fund as \$0 (no additional applicants) to Unknown. Oversight also assumes that all money received in the fund will be spent in accordance with this proposal.

Oversight assumes the changes to an existing program in this proposal would have a positive impact on the state. However, Oversight considers this to be indirect impact of the proposal and will not reflect it in the fiscal note.

<u>FISCAL IMPACT - State Government</u>	FY 2014 (10 Mo.)	FY 2015	FY 2016
GENERAL REVENUE			
<u>Revenue Reduction</u> - § 135.680 creation of the New Markets tax credit	<u>\$0</u>	<u>\$0</u>	\$0 to <u>(\$25,000,000)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>\$0</u>	<u>\$0</u>	<u>\$0 to (\$25,000,000)</u>

Note: The fiscal note does not reflect the possibility that some of the tax credits could be utilized by insurance companies against insurance premium taxes. If this occurs, the loss in tax revenue would be split between the General Revenue Fund and the County Foreign Insurance Fund, which ultimately goes to local school districts.

**NEW MARKETS PERFORMANCE
GUARANTEE FUND**

<u>Income</u> - Qualified Community Development Entity fee	\$0 or Unknown	\$0 or Unknown	\$0 or Unknown
<u>Cost</u> - Refund of Qualified Community Development fee	\$0 or <u>(Unknown)</u>	\$0 or <u>(Unknown)</u>	\$0 or <u>(Unknown)</u>

**ESTIMATED NET EFFECT ON NEW
MARKETS PERFORMANCE
GUARANTEE FUND**

\$0 \$0 \$0

FISCAL IMPACT - Local Government

FY 2014
(10 Mo.)

FY 2015

FY 2016

\$0

\$0

\$0

FISCAL IMPACT - Small Business

Small businesses that receive the credit could be impacted.

FISCAL DESCRIPTION

This proposal allows entities that make a qualified equity investment to receive certain tax credits and establishes procedures for obtaining such credit.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Economic Development
Department of Insurance, Financial Institutions and Professional Registration
Department of Revenue
Joint Committee on Administrative Rules
Office of Administration
 Budget and Planning
Office of the Secretary of State
Office of State Treasurer



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